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C O N F I D E N T I A L SECTION 01 OF 03 BONN 18053

E.O. 11652: GDS

TAGS: ENGR, GW

SUBJECT: GERMAN GOVERNMENT CONSIDERING NEW OIL
RELATED ECONOMIC MEASURES

REF: A. BONN 17696; B. BONN 17918

1. SUMMARY. THE GERMAN GOVERNMENT CONTINUES TO
POSTPONE ANY DECISION ON INTRODUCTION OF MAJOR NEW
MACRO-ECONOMIC MEASURES TO DEAL WITH AN OIL
SHORTAGE IN PART DUE TO DIVISION WITHIN THE GOVERNMENT
AND POLITICAL PARTIES OVER TIMING OF RELAXATION OF THE
GOVERNMENTS ANTI-INFLATION POLICY. ECONOMICS MINISTER
FRIDERICHs PRESENTED THE LATEST OIL SUPPLY FIGURES DURING
A SOLEMN SPEECH TO A HUSHED BUNDESTAG ON DECEMBER 12,
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NOTING THAT WHILE THE MEASURES ALREADY INTRODUCED TO CON-

SERVE GASOLINE WERE SUCCESSFUL, THE HEAVY HEATING OIL SUPPLY SITUATION HAD BECOME SERIOUS. HOWEVER, ADDITIONAL CONSUMPTION RESTRICTIONS ARE NOT EXPECTED BEFORE THE END OF THE YEAR. BRANDT CONTINUES TO PLAY PUBLIC ROLE AND INTENDS TO MAKE A MAJOR PUSH FOR A COMMON EC POLICY IN THE FACE OF THE ENERGY CRISIS. SUCH A POLICY IS DESCRIBED AS IMPORTANT TO GERMANY IN THE EC CONTEXT AS THE COMMON AGRICULTURAL POLICY IS TO FRANCE AND AS REGIONAL POLICY IS TO THE UK. END SUMMARY.

2. THE ABILITY OF THE EC TO ADOPT A COMMON ENERGY POLICY HAS BECOME A MAJOR IF NOT THE PRIMARY CONSIDERATION IN THE GERMAN PUBLIC'S ASSESSMENT OF THE ECONOMIC AND POLITICAL VALUE OF THE COMMON MARKET. GERMAN OFFICIALS TELL US THAT IT IS IN THIS LIGHT THAT ONE SHOULD READ BRANDT'S MANY RECENT STATEMENTS SUCH AS "THE EC'S REACTION TO THE ENERGY CRISIS WILL SHOW US JUST WHAT THE COMMUNITY IS WORTH." FOR BOTH DOMESTIC AND FOREIGN POLITICAL AND ECONOMIC CONSIDERATIONS, THEREFORE, BRANDT WILL HAVE AMPLE INCENTIVE TO PUSH HARD FOR A COMMON EC APPROACH IN THE ENERGY CRISIS. INDEED, OUR CONTACTS STRESS THAT SUCH POLICIES HAVE BECOME AS IMPORTANT FOR GERMAN SUPPORT OF THE EC AS THE CAP IS TO FRANCE AND REGIONAL POLICY IS TO THE UK.

3. IN RECENT CONVERSATIONS WITH EMBOFFS, BRANDT'S PRINCIPAL ENERGY ADVISORS -- LANTZKE OF THE ECONOMICS MINISTRY AND LAHNSTEIN OF THE CHANCELLORY -- INFORMED US THAT THEY HAVE PREPARED A DETAILED LIST OF PROPOSALS WHICH COULD PROVIDE THE HEART OF SUCH POLICY STEPS. IMMEDIATE MEASURES INCLUDE MINIMUM STANDARD ENERGY SAVING MEASURES TO BE APPLIED IN ALL MEMBER COUNTRIES (E.G., COMMON SPEED LIMITS, DRIVING RESTRICTIONS, ETC.), A COMMON CARRIER SYSTEM FOR PIPELINES WHICH WOULD REMOVE THEM FROM INDIVIDUAL GOVERNMENT AND OIL COMPANY CONTROL; DETAILED ANALYSES INCLUDING INPUT-OUTPUT STUDIES OF THE EFFECTS OF THE ENERGY CRISIS ON THE EC AS A WHOLE, AS WELL AS IN INDIVIDUAL COUNTRIES, REGIONS AND SECTORS; AND THE ESTABLISHMENT OF A COMMUNITY MECHANISM FOR THE GATHERING AND SHARING OF INFORMATION ON ENERGY (PARTICULARLY

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PETROLEUM) FLOWS AND SUPPLIES WITHIN THE EC. MEDIUM TERM MEASURES INCLUDE CLOSER COOPERATION WITH OTHER CONSUMERS (ESPECIALLY THE US AND CANADA) AND PRODUCERS, AND THE CREATION OF AN EC-CONTROLLED ENERGY POOL CONSISTING AT FIRST OF A PORTION OF EXISTING STOCKS AND EXPANDING TO A SYSTEM SUCH AS THE US NAVAL RESERVES. THE PRINCIPAL LONG-TERM PROPOSAL IS FOR A COMMON R & D EFFORT.

4. THE FEDERAL GOVERNMENT CONTINUES TO POSTPONE MAKING ANY MAJOR NEW DECISIONS ON HOW TO DEAL WITH THE ENERGY SHORTAGE. ACCORDING TO FRIDERICH (ECONOMICS MINISTER) THE PUBLIC EXPLANATION IS THAT SUFFICIENT STATISTICAL INFORMATION, PARTICULARLY THE "WISE MEN" REPORT WILL NOT BE READY UNTIL JUST PRIOR TO THE DECEMBER 19 CABINET MEETING. HOWEVER, A MORE LIKELY EXPLANATION IS THAT THE GOVERNMENT HAS NOT YET RESOLVED AN INTERNAL DISPUTE OVER IF AND WHEN TO RELAX ITS TIGHT ANTI-INFLATION POLICY. FINANCE MINISTER SCHMIDT

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HAS INDICATED HIS SUPPORT FOR A STEP BY STEP RELAXATION

WHILE OTHERS, A NUMBER OF WHOM ARE FDP MEMBERS, FEAR THAT MACRO-ECONOMIC STIMULATION OF THE ECONOMY IN GENERAL WILL SIMPLY INCREASE PRESSURES ON BOTTLENECKS CAUSED BY OIL SHORTAGES WITHOUT REDUCING UNEMPLOYMENT IN SPECIFIC INDUSTRIES. THE DEBATE OVER ADDITIONAL MEASURES STEMS FROM ECONOMIC PREDICTIONS OF A 15 TO 20 PERCENT SHORTFALL IN OIL DELIVERIES IN 1974 RESULTING IN A ZERO GROWTH RATE OF REAL GNP EVEN WITHOUT CONSIDERING THE PSYCHOLOGICAL REPERCUSSIONS WHICH SOME THINK MIGHT DRIVE THE RATE EVEN LOWER. THIS PREDICTION STEMS FROM A REVISION IN CURRENT ESTIMATES OF HOW FAST THE ECONOMY IS COOLING APART
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FROM THE OIL CRISIS. ALTHOUGH THERE HAS BEEN NO DRAMATIC WORSENING OF THE BASIC ECONOMIC INDICATORS, THE GOVERNMENT WAS PARTICULARLY WORRIED WHEN THE UNEMPLOYMENT RATE REACHED 1.5 PERCENT IN NOVEMBER AND WITH THE PROSPECT THAT ZERO REAL GROWTH WOULD MEAN 500,000 UNEMPLOYED WORKERS IN 1974. ON STIMULATION MEASURES, THE GOVERNMENT IS PRESENTLY CONSIDERING ELIMINATION OF THE 11 PERCENT INVESTMENT TAX AS OF JANUARY 1 AND REINSTATEMENT OF ACCELERATED DEPRECIATION ALLOWANCES FOR ONE AND TWO FAMILY HOMES. RELAXATION OF LIMITS ON FEDERAL AND STATE SPENDING, AND A GROWING PUBLIC SECTOR DEFICIT AS EXPENDITURE CONTINUES TO INCREASE, WHILE REVENUE RISE MORE SLOWLY, WOULD ADD MORE STIMULUS TO THE ECONOMY.

5. DURING THE BUNDESTAG DEBATE OVER A GOVERNMENT PROPOSAL TO PROVIDE HEATING OIL SUBSIDIES TO AN ESTIMATEO 3 MILLION ECONOMICALLY DISADVANTAGED FAMILIES, FRIDERICH'S REVIEWED THE CURRENT OIL SITUATION. HE CLAIMED THE INTRODUCTION OF SPEED LIMITS AND THE SUNDAY DRIVING BAN WERE SUCCESSFUL IN MEETING THE DECEMBER GASOLINE SHORTFALL. WHILE ANNOUNCING THERE WERE TO BE NO DRIVING RESTRICTIONS EXCEPT FOR THE SPEED LIMIT BETWEEN DECEMBER 19 AND JANUARY 6, HE SAID IT WILL BE NECESSARY TO IMPOSE CONSERVATION MEASURES TO MEET THE PREDICTED JANUARY 12.1 PERCENT GASOLINE SHORTFALL. A DECISION ON MEASURES WILL BE MADE DURING THE DECEMBER 19 CABINET MEETING. FRIDERICH'S ALSO MADE THE FOLLOWING COMMENTS:

A. CRUDE AND PRODUCT DELIVERIES TO THE FRG HAD A SHORTFALL OF 6.2 PERCENT IN DECEMBER AND ARE EXPECTED TO BE SHORT BY 20.5 PERCENT IN JANUARY. THE SHORTFALL OF PRODUCT DELIVERIES FROM FRG REFINERIES WAS 11.1 PERCENT IN DECEMBER (JANUARY PREDICTION IN PARENTHESIS) (12.1) FOR GASOLINE; 13.3 (16.4) PERCENT FOR MIDDLE DISTILLATES; AND 17.3 (17.9) PERCENT FOR HEAVY HEATING

OIL. GASOLINE STOCKS AMOUNTED TO 59 DAYS SUPPLY ON NOVEMBER 15 AND WERE UNCHANGED ON DECEMBER 1. STOCKS INCREASED FROM 74 TO 77 DAYS FOR MIDDLE DISTILLATES AND DECLINED FROM 75 TO 72 DAYS FOR HEAVY HEATING OIL BETWEEN NOVEMBER 15 AND DECEMBER 1.

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B. HEAVY HEATING OIL CONTINUES TO BE THE SECTOR OF MAJOR CONCERN ESPECIALLY IN THE COLOGNE AREA SINCE REFINERIES IN THAT AREA ARE DEPENDENT ON THE ROTTERDAM PIPELINE. AS NOTED IN PARA 5 OF REFTEL A, SOME CRUDE PRESENTLY BEING DELIVERED TO THE FRG DOES NOT REFINES INTO AS MUCH HEAVY HEATING OIL AS THAT DELIVERED PRIOR TO THE IMPLEMENTATION OF THE ARAB CUTBACKS. EFFORTS TO SUBSTITUTE 490,000 TONS OF HEAVY HEATING OIL WITH COAL HAVE BEEN INITIATED.

C. NAPHTHA IS ALSO IN SHORT SUPPLY AFFECTING PRIMARILY THE CHEMICAL INDUSTRY. AFTER A MEETING WITH REPRESENTATIVES OF THE GOVERNMENT AND CHEMICAL INDUSTRY, THE OIL INDUSTRY AGREED TO DELIVER 5 MILLION TONS OF NAPHTHA DURING THE FIRST HALF OF 1974 IN RESPONSE TO A 6 MILLION TON REQUEST FROM THE CHEMICAL INDUSTRY.

D. PROPANE AND METHANE ARE IN SHORT SUPPLY PARTICULARLY IN THE GLASS INDUSTRY AND THEY CANNOT BE SUBSTITUTED BY OTHER ENERGY SOURCES. A CLEARING OFFICE WILL TRY TO DISTRIBUTE THEM IN A WAY THAT PRODUCTION LOSSES WILL BE AVOIDED.

E. THERE ARE NO SHORTAGES OF DIESEL OIL.

F. THE SUPPLY OF BUNKER OIL ABROAD GIVES RISE TO CONCERN. SINCE THE OPERATION OF GERMAN OCEAN VESSELS IS IMPORTANT TO GERMAN EXPORTS, ESPECIALLY OF AUTOMOBILES THE FRG HAS RAISED THIS ISSUE IN DIPLOMATIC CHANNELS, PARTICULARLY IN LATIN AMERICA.

G. WITH FEW EXCEPTIONS, THE STOCKPILES HAVE NOT YET BEEN DIPPED INTO ALTHOUGH IT IS PROBABLE THAT IT WILL BECOME NECESSARY IN A FEW CASES IN THE NEAR FUTURE.

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UNDER EXISTING LEGISLATION, ALL COMPULSORY STOCKS WOULD HAVE TO BE INCREASED AS OF 1974 BECAUSE THE MANDATORY QUATITIES ARE BASED ON ACTUAL COMSUMPTION IN THE PRECEDING YEAR. FRIDERICHs SAID HE WILL RECOMMEND TO THE FEDERAL CABINET, HOWEVER, TO RETAIN THE 1973 LEVEL IN 1974.

H. ECONOMICS MINISTRY OFFICIALS HAVE MET WITH OIL COMPANY REPRESENTATIVES TO DISCUSS OIL PRICE INCREASES. A FULL REPORT OF THESE DISCUSSIONS AS WELL AS DETAILED PRICE INFORMATION IS TO BE SUBMITTED TO THE CABINET FOR ITS DECEMBER 19 MEETING.

6. IN SOME OFF-THE-CUFF REMARKS AT THE END OF
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HIS SPEECH, FRIDERICHs NOTED THAT THE FRG WILL HAVE TO DIVERSIFY ITS ENERGY SUPPLY SOURCES. HE SAID HE WAS ON HIS WAY TO WARSAW TO DISCUSS JOINT ENERGY PROJECTS WHICH ARE OF INCREASED IMPORTANCE TO THE FRG.

7. CHANCELLOR BRANDT CONTINUES TO MAINTAIN HIS PUBLIC EXPOSURE ON ENERGY QUESTIONS. ON CEMBER 14 THE FRG

PRESS OFFICE ANNOUNCED THAT BRANDT WILL PRESIDE AT AN
ECONOMIC CABINET MEETING ON DECEMBER 17 AND WILL MEET
THE PARTY AND FRAKTION CHAIRMAN ON DECEMBER 20,
FOLLOWING THE REGULAR CABINET MEETING ON DECEMBER 19.
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